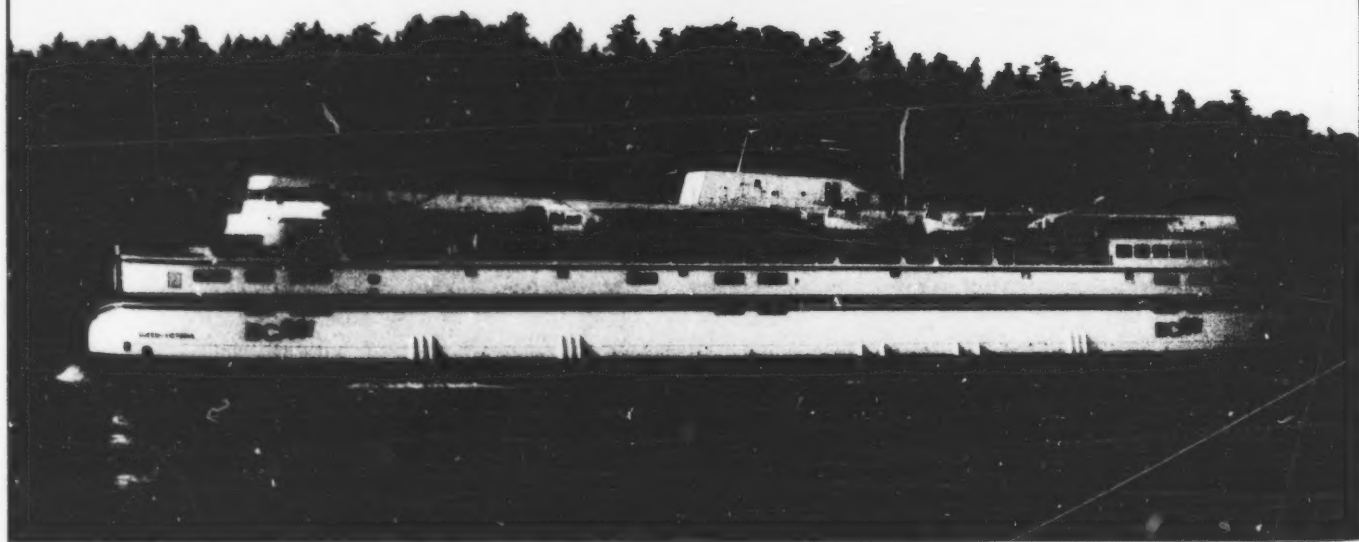


**BRITISH COLUMBIA
FERRY CORPORATION**

ANNUAL REPORT 1984/85



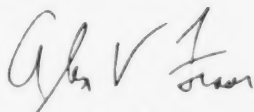
Front cover photo:

The M.V. "Queen of Victoria" in her new colours, sailing through Active Pass

The Honourable
ROBERT G. ROGERS
Lieutenant Governor
of the Province of British Columbia

MAY IT PLEASE YOUR HONOUR:

I respectfully submit herewith the Annual Report of the British Columbia
Ferry Corporation for the fiscal year ended March 31, 1985 in compliance
with the provisions of the Ferry Corporation Act.

A handwritten signature in dark ink, appearing to read 'Alex V. Fraser', is written in a cursive style.

ALEX V. FRASER
Minister of Transportation and Highways

June 3, 1985

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BOARD OF DIRECTORS



ALEX V. FRASER
Minister, Transportation & Highways
Province of British Columbia
Minister Responsible



S.M. HODGSON (1)
Chairman of the Board



R.H. WRIGHT (1)(3)
Vice-Chairman/ President
Oak Bay Marina Ltd.



M.D.W. YOUNG (3)
Barrister & Solicitor



A.L. MICHAUD (1)(4)
President
Michaud Investments



J. MORRIS (3)
Retired



W.B.M. HICK (1)(2)
Physician & Surgeon



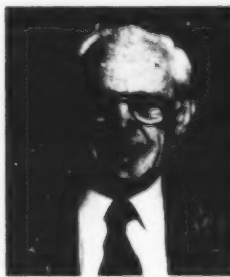
W.A. DUNCAN (2)(4)
Retired



J.E. PRICE (4)
Managing Director
Beach Gardens Resort



A.L. COLLIER (1)
President & Chief
Executive Officer



G. BALDWIN (1)
General Manager



J.J. ESTOCK (1)
Assistant General Manager
Finance & Administration



K. BAGSHAW
Corporate Counsel



A.S. LUKINUK (1)
Corporate Secretary

(1) Member - Executive Committee
(2) Member - Finance Committee

(3) Member - Planning Committee
(4) Member - Audit Committee

REPORT OF THE CHAIRMAN

The Honourable Alex V. Fraser Minister of Transportation & Highways:

1984-85 yielded appreciable reductions in the B.C. Ferry Corporation's operating deficit. This was achieved while still meeting the Corporation's mandate of offering the best possible service in the most efficient manner. While 1983-84 was effectively a year of stabilization and overall operational streamlining, this past fiscal year has been one of significant adjustment to the service to high loss areas. At the same time, the modest traffic growth experienced in 1983-84 over that of 1982-83 was once again reversed in 1984-85. The traffic results were well below expectations, with vehicles at 4,460,069 and passengers at 11,912,943. This represents a decline of .5% in vehicles and 3.9% in passengers over 1983-84.

In keeping with the British Columbia Government's instructions to pare costs in all possible areas, a major assessment review of high loss areas was completed. The review, which touched on all aspects of service to the North Coast, Sunshine Coast and Gulf Islands, took a three-pronged approach: 1) to reduce operating costs, particularly during the low revenue off season period by more closely matching schedules to traffic demand and patterns; 2) to provide residents of communities dependent upon the ferries as a transportation link with a service that would meet their day to day requirements; and, 3) to maximize the Corporation's role in the province's vital tourist industry.

I am pleased to report that the success of the Ferry Corporation's ongoing cost reducing program is due in part to the spirit of cooperation that prevailed between the communities concerned and the Corporation in implementing cost reducing measures that have already yielded impressive results. For example, service to the North Coast was reduced between Prince Rupert and Port Hardy during traditionally low traffic months. However, the projected savings allowed the Corporation to carry out ship renovations necessary to implement a day boat operation during the summer tourist season. The summer of 1985 will see the launching of this new day cruise service between Prince Rupert and Port Hardy - a service that will substantially increase the tourist activity to northern communities.

Efficiency measures undertaken on the Sunshine Coast also involved a reduction in the number of sailings. However, a ramp at Langdale terminal was doubledecked with the result that the route can now be fully operated with a doubledecked ship. This has effectively increased the lift-off capacity while at the same time allowing the Corporation to operate the service in a more cost efficient manner.

While the emphasis this past year was directed to cutting costs on specific routes, overall savings were achieved in all facets

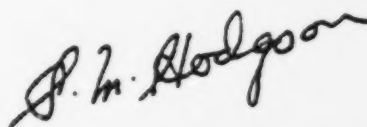
of the operation. Labour costs, which account for the major part of the operating budget, were substantially reduced by a general streamlining of the establishment in line with the provisions of the collective agreement.

As mentioned, the anticipated turnaround in traffic levels did not materialize during 1984-85. Indeed, while in 1983-84 a slight increase in vehicles and passengers was experienced, this past year has seen a decline of 22,638 vehicles and 484,962 passengers. Nevertheless, despite the general decline in traffic, the month of August set an all-time record for passengers and vehicles. Also, a hopeful indication that recovery has begun is the performance of commercial vehicle traffic. For all routes, commercial traffic was up 3% over 1983-84 and 8% over 1982-83. For the last quarter of 1984-85, commercial traffic on the two Vancouver Island routes was up 6.5%. In the past, commercial traffic has often been a precursor or leading indicator of overall traffic trends.

With this in mind plans are underway to meet the increased demand during Expo '86. The fleet's expansion since 1980 by way of lifting five major vessels, plus the ships presently laid up, has put the Corporation in an excellent position to meet projected vehicle lift-off demands. In addition, bus passenger pick up and drop off zones are being revamped at the major terminals to make it a more attractive and convenient means of travel.

British Columbia's ferry fleet plays an important role in preserving the coastal residents' way of life by offering a vital transportation link. At the same time the fleet itself is seen by millions of tourists as a major attraction. The B.C. Ferry Corporation's employees, management and board of directors take pride in meeting the many and varied needs of their travelling public.

On behalf of the Board,



Stuart M. Hodgson
Chairman

REPORT OF THE PRESIDENT

The Corporation has now experienced three straight recessionary years with little or no growth in most categories of traffic. The notable exception to this pattern is the 3% increase in commercial vehicles – a hopeful sign toward economic recovery in British Columbia.

In spite of soft traffic patterns, the future looks promising. In the face of adversity over the past three years, costs have actually been reduced through careful planning of ship and crew schedules. It is encouraging to note that these and other continuing management efficiencies have resulted in a further 5% reduction of operating expenses while net revenue increased 5% in spite of declines in traffic. The increase in revenue was in part, a reflection of the very modest increase in fares. Vehicle fares increased by approximately 5% in February of 1985.

The Corporation is now leaner, more efficient and well positioned to take advantage of the anticipated return to healthy traffic growth expected over the next two years.

Good progress was made this year in a continuing effort to improve overall efficiency of the fleet through the application of a more precise match between capacity and traffic. Input from local residents has become a regular feature of the planning process. Community meetings were held on the Sunshine Coast, the North Coast and the Gulf Islands to discuss proposed schedule changes.

Although service was cut back on some routes, the number of sailings for the entire system increased by 3% in 1984/85. There was a total of 70,313 one-way sailings.

Sunshine Coast service and efficiency were improved with the introduction of the converted "Queen of Alberni" into operation on the Langdale-Horseshoe Bay route in conjunction with upgraded terminal facilities at Langdale.

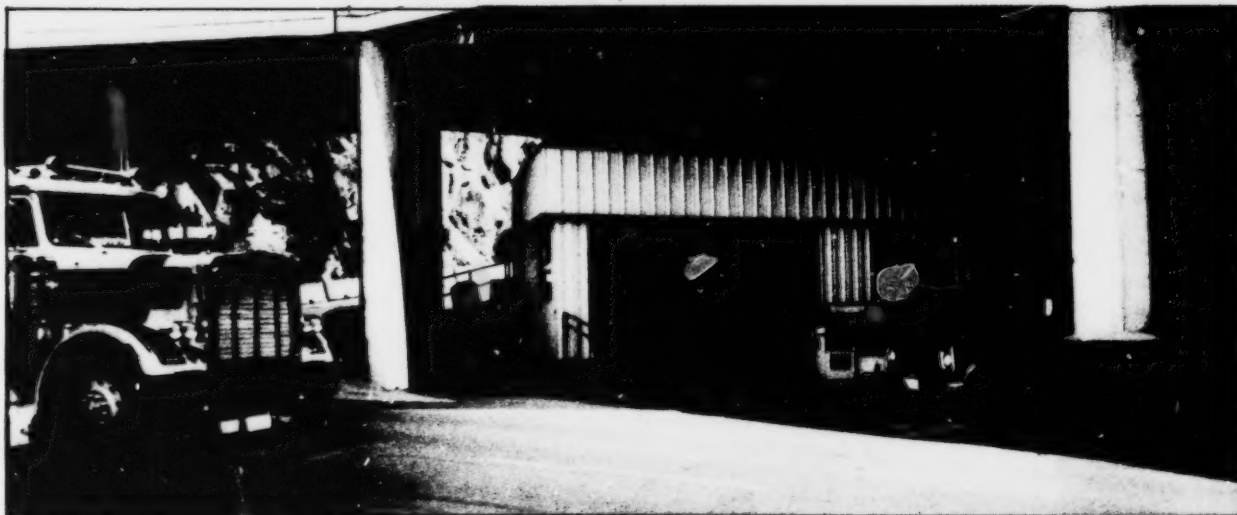
On the North Coast substantial cuts were made in winter service, with the elimination of the Tsawwassen leg of the Prince Rupert-Port Hardy route from the winter operation. A single ship made one trip per week to Port Hardy and two round trips to Skidegate.

In addition, the chartered Prince Rupert-Masset tug and barge service for drop trailers was terminated March 31, 1985. Commercial drop trailers will be carried on the regular ferry route from Prince Rupert to Skidegate. During 1984/85 it was decided that the summer service between Prince Rupert and Port Hardy would be a daylight operation commencing the summer of 1985.

The most significant improvements in efficiency have resulted from better scheduling of crews. Overtime costs have been substantially reduced. A policy of flexible vessel licences has enabled the Corporation to vary the size of crews throughout the day according to the requirements of traffic.

One of the new management tools introduced in 1984/85 was an Executive Network of microcomputers.

The Executive Network provides senior management with traffic statistics, revenue information, spreadsheet applications and forecasting models. Senior managers are using the system to monitor current traffic and demands on schedules. Historical data can be viewed in order to identify trends. By combining



Passenger waiting room, Horseshoe Bay

REPORT OF THE PRESIDENT

these features with a forecasting model, it is possible to quickly predict capacity utilizations, licence requirements and probable overloads. By using the spreadsheet application, senior managers can analyze various scenarios with regard to tariff and revenue items. The system, therefore, is a powerful tool that can aid senior management in both short term and long term planning.

Engineering

The Corporation's major construction project this year was the lifting of the "Queen of Alberni." The contract was placed February 27, 1984 and 105 days later, on June 11, 1984, the ship was back in service with a new upper car deck doubling its original vehicle capacity.

Coinciding with this project was a major upgrading of facilities at Langdale Terminal. The vehicle loading ramps were double-decked in order to permit simultaneous loading of both vehicle decks. New offices and waiting rooms were constructed and the holding compound layout was redesigned.

Modifications were commenced on the "Queen of the North" to suit the new "Day Cruise" service. Because of the cancellation of contracted tug and barge service to the Queen Charlotte Islands, both the "Queen of the North" and "Queen of Prince Rupert" were outfitted to carry refrigerated trucks by installation of new car deck exhaust systems to enable truck cooling units to operate during the crossing of Hecate Strait. The holding compound at Skidegate Terminal was increased in size to accommodate drop trailer traffic.

Improvements in facilities at major terminals have continued.

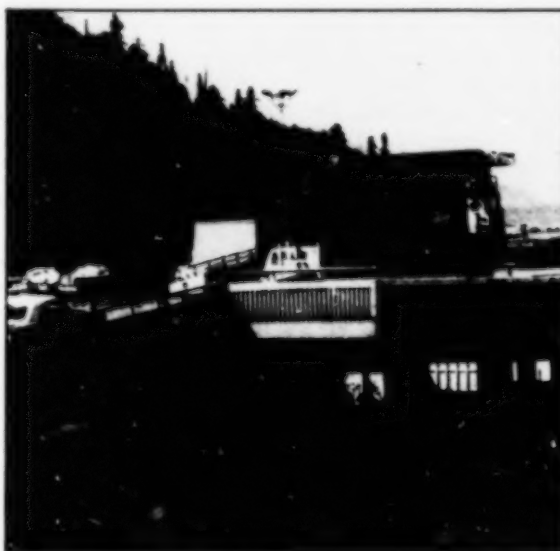
At Swartz Bay a new passenger pick-up facility was completed adjacent to the docks, thus shortening the walking distance for discharging foot passengers and alleviating congestion at the departure ticketing area. New toll booths were built in order to improve the flow of traffic and expand the holding compound. Planning is underway at Swartz Bay for double-laning the upper vehicle ramp at Number 1 Berth; for expansion of the

refrigerated and dry stores area; and for construction of a new bus passenger loading facility which will include six bus bays and a new passenger waiting room.

At Tsawwassen the upper vehicle ramp at Number 2 Berth has been widened to two lanes, thus speeding the loading and unloading process, and the cafeteria was expanded to provide additional seating.

At Horseshoe Bay the upper vehicle holding area was extended and a new passenger waiting room and control tower were built.

After a period of extensive testing during 1983-84, fuel metres have been fitted to all major vessels. The fuel metres, together with better ship scheduling, has resulted in total fuel consumption in 1984/85 of 76,258,000 litres, a 3% reduction from the previous year.



Control tower, Horseshoe Bay



Overhead ramp, passenger waiting room, and office, Langdale

REPORT OF THE PRESIDENT

New fleet colours are appearing on the vessels as they go into refit for regular maintenance. Approximately half the vessels, have now been repainted. The EXPO 86 logo is being painted on funnels in conjunction with the repainting program.

Catering

The past fiscal year was a period of consolidation for the Catering and Passenger Services area. Total revenue declined as a result of lower passenger traffic, smaller average expenditure per passenger and the closing of marginal outlets. Although within budget, the Gross Profit percentage was slightly lower than the previous year. Menu price increases were kept at a minimum in response to the public's resistance to high priced menu items.

General operating expenses were reduced substantially with the result that the net operating loss was reduced from previous years in spite of declining revenue.

Reductions in Route #10 (Port Hardy-Prince Rupert) operations have produced substantial drops in both liquor and stateroom revenue; however, the lost revenue was more than offset by reduced expenses. Anticipated sales increases on the new day run concept should more than replace these lost marginal sales with very productive revenue dollars.

Ongoing emphasis on newsstand development has produced an increase in both sales and newsstand gross profit in spite of limited passenger traffic. In support of this trend, the Vancouver Class vessels will be featuring new expanded gift shops with three vessels completed prior to the summer of 1985.

The new Tsawwassen test kitchen and Quality Control Supervisor continue to produce basic improvements in food quality. Although gradual, these improvements have proven to



Expanded newsstand/giftshop

be lasting and consistent throughout the fleet. Revised food purchasing procedures have also been effective in improving quality consistence and value.

Communications

B.C. Ferries has continued to expand its role in the promotion of tourism, in recognition of the significance of this growing industry to British Columbia and the Corporation as a major source of revenue. A major activity this winter has been the promotion of the Day Cruise, which is to be introduced on the Northern route to Prince Rupert in the summer of 1985.

The Corporation has also expanded its activities in major travel shows in key market areas of the U.S. and Canada, working in close cooperation with Tourism B.C. and the tourism regions of the province. The past year also featured more involvement with local tourism communities in areas served by the Corporation.



Foot passenger arrivals, Swartz Bay

REPORT OF THE PRESIDENT

Computerized reservations for the Gulf Islands and North Coast which were completed in 1983 have been streamlined, and now offer an even more efficient service to travel agents and the general public. This process will continue as we prepare well ahead for the anticipated volume of enquiries that will be generated by Expo 86.

Labour Relations

The main Labour Relations activity during 1984 was the administration of the collective agreement that was concluded in 1983. This included developing a layoff and recall procedure with the Union which allowed the Corporation to downsize its work force.

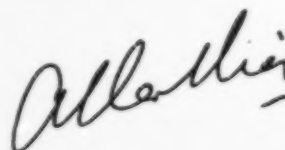
A number of grievances arose as a result of the new contract language; however, the parties were able to resolve these differences of opinion in accordance with procedures established under the collective agreement. This last fiscal year saw no time loss due to picket action of any kind, including third-party picketing.

Personnel

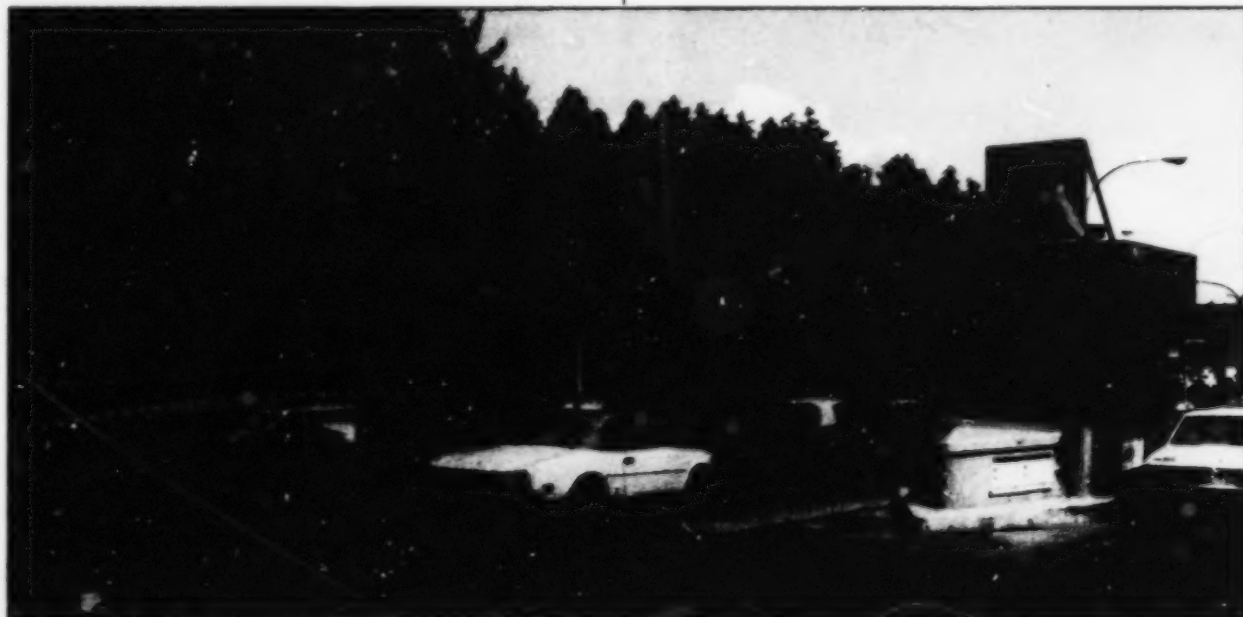
The greater flexibility in manning and improvements in scheduling afforded by the Agreement concluded on October 30, 1983, impacted most significantly on the personnel function in 1984. A new bargaining unit establishment, reflecting the Corporation's ongoing commitment to reduce overall wage costs by means of the rationalization of the Corporation's human resource requirement to a level commensurate with its real operational requirements, was accepted and approved. At the same time the Corporation's commitment to reduce its

outstanding banked overtime liability continued with positive results; careful manpower planning reduced the total banked overtime by 31%.

The new bargaining unit establishment of 1951 positions resulted in a reduction of 221 positions effective October 10, 1984. Where the reduction impacted on an employee it was effected in consultation with that employee, his Union representative and his Union executive. As a result of the extensive preparatory work completed, and despite the inevitable rippling effect of "bumping," the overall reduction in the number of employees was brought about with a minimum of disruption of personal inconvenience. Of those employees who were laid off and who elected to return to work with the Corporation when work is available, and after allowing for attrition of present regular employees through retirement, death, disabilities, etc. it is considered that the vast majority will return to work as full time regular employees within the next 18 months. In the interim, they will be offered every opportunity to work for the Corporation throughout the busy summer months or any other time that their services can be used.



A.L. Collier
President and
Chief Executive Officer



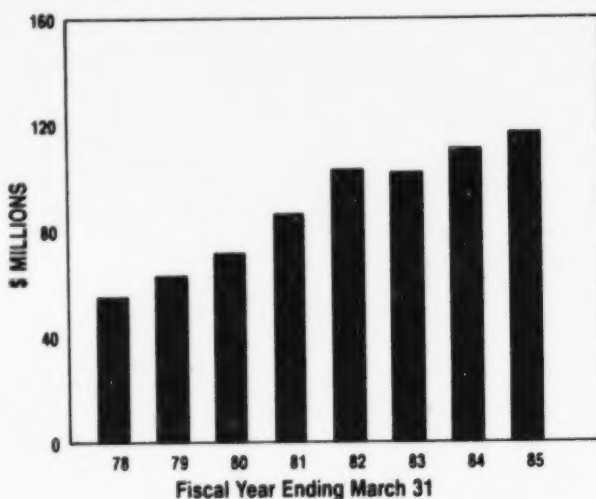
Vehicle toll booths, Swartz Bay

HIGHLIGHTS OF YEAR

NET OPERATING REVENUE + 5%

Despite the lack of significant traffic growth in recent years, revenues have been growing as a result of regular, modest, annual fare increases.

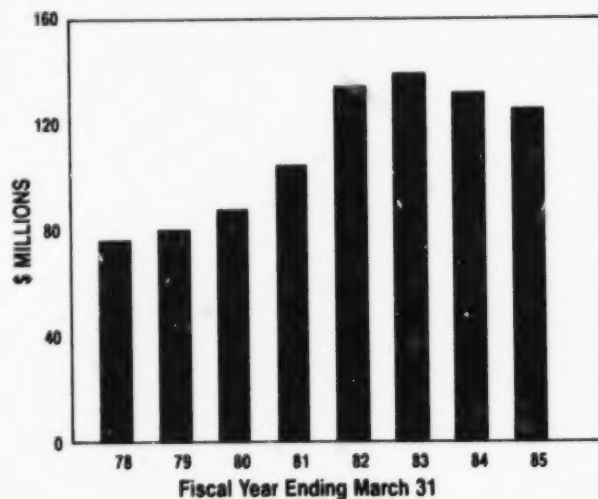
Net operating revenue has grown at an average rate of 7.7% per year over the past five years.



OPERATING EXPENSES - 5%

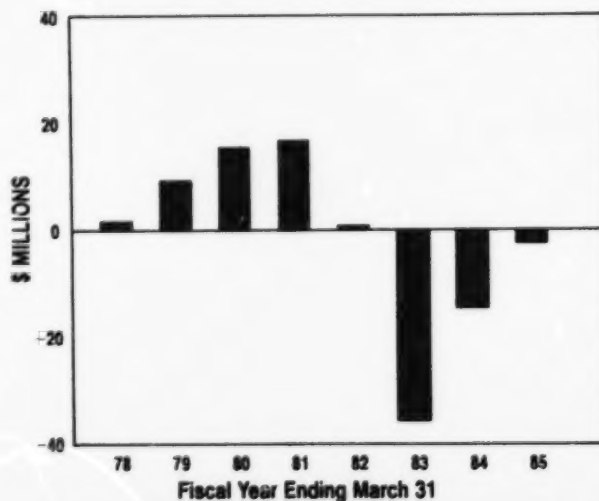
After a period of sharply rising costs in the late 70's and early 80's, operating expenses have been brought under control over the past three years.

This restraint was essential due to lack of traffic growth and a major reduction in the provincial government subsidy.



INCOME/LOSS AFTER SUBSIDY & DEPRECIATION

Despite the lack of traffic growth there has been a strong financial recovery over the past three years as a result of operating cost restraint and modest fare increases.

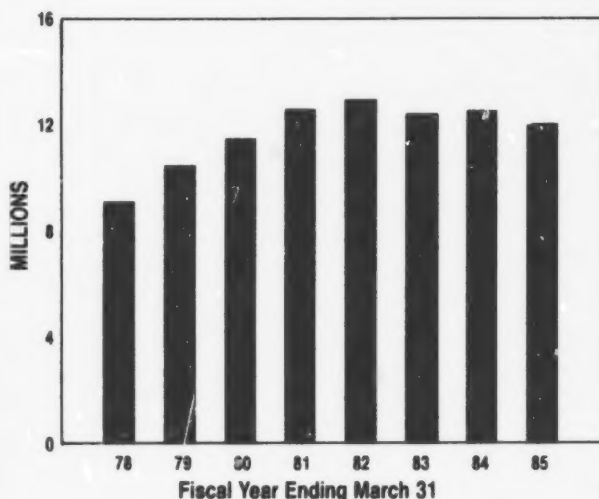


HIGHLIGHTS OF YEAR

TOTAL PASSENGERS — 4%

After a small increase in 1983/84, passenger traffic has fallen again in 1984/85.

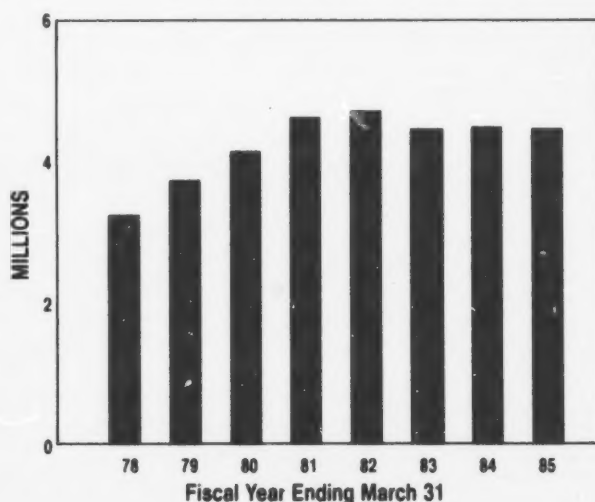
Over the past 24 years, 185 million passengers have been carried. The 200 millionth passenger is expected during the summer of 1986.



TOTAL VEHICLES — 0.5%

Total vehicle traffic has remained virtually unchanged over the past three years.

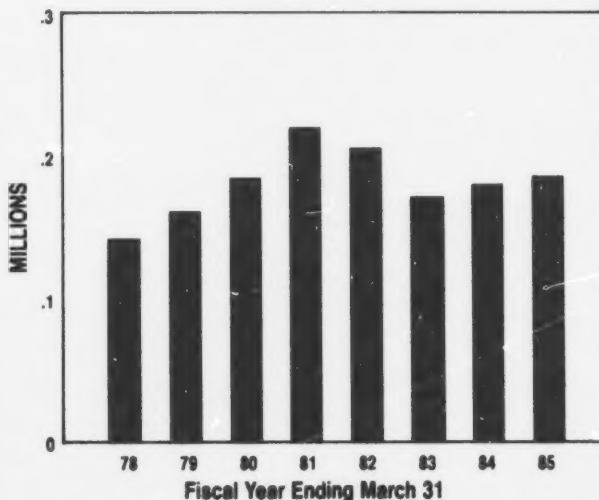
Over 67 million vehicles have been carried since 1960.



COMMERCIAL VEHICLES + 3%

Commercial vehicles have shown a steady increase over the past two years after suffering a sharp decline in the early 1980's.

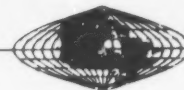
In the past, commercial traffic has usually been a precursor or leading indicator of changes in other traffic categories.



AUDITOR'S REPORT

**THORNE
RIDDELL**

Chartered Accountants



AUDITORS' REPORT

To the Lieutenant-Governor in Council
Province of British Columbia

We have examined the balance sheet of British Columbia Ferry Corporation as at March 31, 1985 and the statements of income, deficit and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the Corporation as at March 31, 1985 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Thorne Riddell

Chartered Accountants

Victoria, Canada
May 21, 1985

BRITISH COLUMBIA FERRY CORPORATION**Balance Sheet
as at March 31, 1985****ASSETS**

1985 1984
(expressed in thousands)

CURRENT ASSETS

Cash (Note 1)	\$ 11,943	\$ 3,861
Accounts receivable (Note 2)	800	505
Inventories (Note 3)	8,558	9,252
Prepayments and deposits	849	583
	<u>22,150</u>	<u>14,201</u>

RESERVED FUNDS (Note 4)

7,817 —

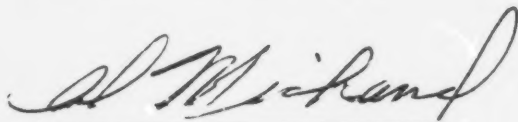
FIXED ASSETS (Note 5)

Ships, berths, buildings, equipment and land	477,874	465,418
Less accumulated depreciation	<u>204,709</u>	<u>173,645</u>
	<u>273,165</u>	<u>291,773</u>

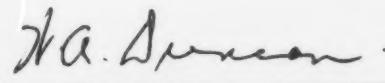
\$303,132

\$305,974

APPROVED BY THE BOARD



Director



Director

BRITISH COLUMBIA FERRY CORPORATION

LIABILITIES

1985 1984
(expressed in thousands)

CURRENT LIABILITIES

Accounts payable and accrued
liabilities
Deferred revenue

\$ 18,261	\$ 19,456
<u>1,675</u>	<u>1,544</u>
19,936	21,000
36,446	35,586
<u>5,218</u>	<u>5,844</u>
<u>61,600</u>	<u>62,430</u>

LONG-TERM DEBT (Note 6)

ACCRUED SICK LEAVE LIABILITY (Note 7)

SHAREHOLDERS' EQUITY

SHARE CAPITAL

Authorized
1,000,000 shares without
par value with a maximum
consideration of \$100,000,000

Issued
68,512 shares

CONTRIBUTED SURPLUS (Note 8)

DEFICIT

6,851	6,851
250,401	250,401
<u>(15,720)</u>	<u>(13,708)</u>
<u>241,532</u>	<u>243,544</u>

COMMITMENTS (note 13)

<u>\$303,132</u>	<u>\$305,974</u>
------------------	------------------

BRITISH COLUMBIA FERRY CORPORATION**Statement of Income**

YEAR ENDED MARCH 31, 1985
(expressed in thousands)

	1985	1984
Operating Revenues		
Tolls	\$100,628	\$ 94,828
Catering	22,396	23,737
Other income (note 9)	2,506	1,949
	<u>125,530</u>	<u>120,514</u>
Less cost of food and goods sold	8,993	9,174
	<u>116,537</u>	<u>111,340</u>
Operating Expenses		
Salaries, wages and benefits	79,518	83,449
Fuel and lubricants	23,886	25,352
Materials, operating supplies and services	10,186	10,338
Contracted replacements, repairs and maintenance	5,263	6,950
Marketing, general and administrative	3,630	3,518
Charter fees	2,825	2,946
	<u>125,308</u>	<u>132,553</u>
Operating Loss Before Subsidy	8,771	21,213
Province of British Columbia Subsidy (note 10)	<u>43,000</u>	<u>43,000</u>
Income from operations	34,229	21,787
Interest Expense (note 11)	<u>5,177</u>	<u>6,198</u>
INCOME BEFORE DEPRECIATION	29,052	15,589
Depreciation	31,064	30,586
LOSS FOR THE YEAR AFTER DEPRECIATION	<u>\$ 2,012</u>	<u>\$ 14,997</u>

BRITISH COLUMBIA FERRY CORPORATION**Statement of Deficit**

YEAR ENDED MARCH 31, 1985

(expressed in thousands)

	1985	1984
Deficit (accumulated income reinvested in corporation assets) at beginning of year	\$ 13,708	\$ (1,289)
Loss for the year after depreciation	<u>2,012</u>	<u>14,997</u>
DEFICIT AT END OF YEAR	<u>\$ 15,720</u>	<u>\$ 13,708</u>

Statement of Changes in Financial Position

YEAR ENDED MARCH 31, 1985

(expressed in thousands)

	1985	1984
SOURCES (USES) OF CASH		
CASH FROM OPERATIONS (Note 12)	<u>\$ 28,355</u>	<u>\$ 17,198</u>
FINANCIAL ACTIVITIES		
Proceeds from promissory note issue	—	14,739
Repayment of note payable	—	(30,000)
Cash reserved for funding accrued sick leave liability	(4,172)	—
Sinking fund payments	<u>(3,645)</u>	<u>(322)</u>
Cash used in financial activities	<u>(7,817)</u>	<u>(15,583)</u>
INVESTMENT ACTIVITIES		
Fixed asset additions	(12,456)	(7,142)
Proceeds on sale of fixed assets	<u>—</u>	<u>9</u>
Cash used in investment activities	<u>(12,456)</u>	<u>(7,133)</u>
INCREASE (DECREASE) IN CASH	8,082	(5,518)
CASH AT BEGINNING OF YEAR	<u>3,861</u>	<u>9,379</u>
CASH AT END OF YEAR	<u>\$ 11,943</u>	<u>\$ 3,861</u>

Note: In this statement cash includes only cash available for day to day operations and does not include Reserved Funds cash.

Summary of Accounting Policies

YEAR ENDED MARCH 31, 1985

In accordance with Section 8(7) of the Ferry Corporation Act the financial statements of the Corporation are prepared in accordance with generally accepted accounting principles. Significant accounting policies followed in the preparation of these financial statements are:

Inventories –

Inventories are valued at the lower of cost and current replacement cost.

Long-Term Disability –

Amounts paid to the Superannuation Branch of the Public Service Commission under the Long-Term Disability Plan are accounted for by the Corporation on the basis of accruing in the financial statements that portion estimated to be payable to employees until retirement for individual disability with the balance of the amounts paid being included in prepaid expenses.

Fixed Assets –

Acquired from the Province of British Columbia effective January 1, 1977:

(a) Ships

Ships, which comprise part of the total assets acquired from the Province effective January 1, 1977 by Order-In-Council dated December 16, 1976 and transferred at an assigned value of \$1, have been revalued by the Corporation and are reflected in the accompanying financial statements at their estimated depreciated replacement value as at January 1, 1977 on the basis of construction records for labour and materials valued at 1977 cost exclusive of any federal ship building subsidies which may have been available during the extended period of years during which the individual ships were built and during which such subsidies fluctuated substantially. The estimated depreciated replacement value of the ships at January 1, 1977 is not intended to reflect fair market value of the fleet nor can it be considered to approximate fair market value because of the specialized nature and limited saleability of the ships themselves.

In addition, three ships presently under charter by the Province until 1994 are subchartered to the Corporation for the same period at an annual cost of \$1 each, with the Corporation being responsible for all operating, repair, and maintenance costs. Under the terms of the subcharter agreement with the Province, the Corporation may in 1994 request that the Province exercise its option to purchase these ships at its own expense in accordance with the terms of its charter agreement. In the event that such option is exercised, clear title to the ships will be transferred to the Corporation. As a result of these transactions and agreements, these ships are reflected as capital assets of the Corporation in the accompanying financial statements and are similarly stated at their estimated depreciated replacement value as at January 1, 1977.

BRITISH COLUMBIA FERRY CORPORATION

(b) Berths, buildings and equipment

Berths, buildings and equipment also comprise part of the total assets acquired from the Province effective January 1, 1977 by Order-In-Council dated December 16, 1976 and transferred at an assigned value of \$1.

These assets are reflected in the accompanying financial statements at their estimated depreciated replacement value as at January 1, 1977 based upon an appraisal made by Universal Appraisal Company Limited as at that date.

Additions and disposals subsequent to January 1, 1977:

The costs of major replacements, additions, extensions and improvements are capitalized in the fixed asset accounts. The costs of maintenance, repairs, minor renewals or replacements are charged against income. On retirement or disposal of fixed assets, the costs thereof and the related accumulated depreciation are eliminated from the accounts and any gains or losses are reflected in the statement of income.

On October 1, 1983 the remaining buildings and equipment at Deas Dock facility, not acquired from the Province on January 1, 1977 were transferred at an assigned value of \$1. These assets are reflected in the accompanying financial statements at their estimated depreciated replacement value as at October 1, 1983 based upon an appraisal made by Universal Appraisal Company Limited as at that date.

Depreciation –

Fixed assets are depreciated on the straight line method based upon the following useful lives:

Ships	25 years
Berths	5 - 10 years
Buildings and equipment	4 - 25 years

Amortization of Promissory Note Discount and Issue Costs –

Promissory note discount is amortized on a compound interest method over the term of the debt. Issue costs are amortized on a straight-line basis over the term of the debt.

Provision for Annual Refit Costs –

The Corporation provides for ship refit expense by charging against income the anticipated costs over the period between refits.

Notes to Financial Statements

YEAR ENDED MARCH 31, 1985

1. CASH AND SHORT-TERM INVESTMENTS

Funds, other than those required for immediate settlement of liabilities, are invested in short-term commercial securities authorized pursuant to the terms and provisions of the Financial Administration Act of British Columbia. The investments are arranged through the Ministry of Finance of the Province.

2. ACCOUNTS RECEIVABLE

Provision has been made for the uncollectibility of a 1980 accounts receivable of \$1,950,619 due from the British Columbia Steamship Company (1975) Ltd. for the lease and modifications to the Lessee's specifications of the M.V. "Queen of Prince Rupert".

3. INVENTORIES

	1985	1984
	(expressed in thousands)	
Spare components, parts and supplies	\$ 6,987	\$ 6,832
Fuel and lubricants	1,153	1,980
Goods for resale and catering supplies	418	440
	<u>\$ 8,558</u>	<u>\$ 9,252</u>

4. RESERVED FUNDS

The Corporation has segregated assets that are required for specific purposes or as required by long-term debt obligations.

	1985	1984
	(expressed in thousands)	
Sinking funds for long-term debt (note 6)		
Administered by the Province	\$ 345	\$ —
Administered by the Corporation	3,300	—
	3,645	—
Fund for accrued sick leave liability (note 7)	4,172	—
	<u>\$ 7,817</u>	<u>\$ —</u>

5. FIXED ASSETS

	1985				1984
	(expressed in thousands)				
	Cost or Appraised Value	Accumulated Depreciation	Net Book Value	Net Book Value	
Ships owned	\$ 282,725	\$ 105,472	\$ 177,253	\$ 192,581	
Ships under capital lease	72,697	22,256	50,441	43,771	
Berths, buildings and equipment	120,524	76,981	43,543	50,966	
Land	723	—	723	723	
Construction in progress	1,205	—	1,205	3,732	
	<u>\$ 477,874</u>	<u>\$ 204,709</u>	<u>\$ 273,165</u>	<u>\$ 291,773</u>	

BRITISH COLUMBIA FERRY CORPORATION

6. LONG-TERM DEBT

	1985	1984
	(expressed in thousands)	
Long-term debt issued by the Corporation		
8.95% Promissory notes (effective rate of 15.75%), are repayable in five equal annual instalments of \$5.7 million commencing March 5, 1988	\$ 28,500	\$ 28,500
Less unamortized discount and issue costs	<u>6,473</u>	<u>7,332</u>
	<u>22,027</u>	<u>21,168</u>
12.08% Promissory note (effective rate of 12.44%) due September 9, 2003 is repayable by annual sinking fund payments of \$322,492 commencing September 9, 1984	14,758	14,758
Less unamortized issue costs	<u>17</u>	<u>18</u>
	<u>14,741</u>	<u>14,740</u>
	36,768	35,908
Sinking fund payment required within one year	<u>322</u>	<u>322</u>
	<u>\$ 36,446</u>	<u>\$ 35,586</u>

Principal and sinking fund payments due in each of the next five years:

1986	1987	1988	1989	1990
\$322,492	\$322,492	\$6,022,492	\$6,022,492	\$6,022,492

The Province of British Columbia unconditionally guarantees the payment of principal and interest on the Promissory notes.

7. ACCRUED SICK LEAVE LIABILITY

On September 1, 1978 the Corporation introduced short-term illness and injury and long-term disability plans and as of that date all employees ceased accruing sick leave credits. Under the collective agreement with the employees, in the event of illness, the accumulated sick time may be withdrawn prior to retirement and on retirement any balance remaining is payable in cash at 50% of accredited time. The liability as at March 31, 1985 based upon a recent actuarial evaluation by Reed Stenhouse Associates Limited established the present lump sum value of cash payouts on retirement to all employees at \$4,172,000 which, with interest will accumulate an amount required to meet those obligations. The recorded liability as actuarially evaluated in 1982 with accrued interest net of withdrawals to 1985 exceeded the current evaluation by \$1,569,391. One third of the excess is reflected in current operations and the balance will be reflected in operations of the next two fiscal periods. Funds reserved for liquidation of this liability are invested in short-term commercial security (Note 1).

BRITISH COLUMBIA FERRY CORPORATION

8. CONTRIBUTED SURPLUS

	1985	1984
	(expressed in thousands)	
Excess of estimated depreciated replacement value over assigned value of \$1 of assets acquired from the Province of British Columbia		
- Ships, berths, buildings and equipment effective January 1, 1977	\$ 249,674	\$ 249,674
- Buildings and equipment effective October 1, 1983	<u>727</u>	<u>727</u>
	<u>\$ 250,401</u>	<u>\$ 250,401</u>

9. OTHER INCOME

	1985	1984
	(expressed in thousands)	
Parking and ancillary traffic revenue	\$ 947	\$ 837
Interest earned on funds in bank and short-term investments	<u>1,559</u>	<u>1,112</u>
	<u>\$ 2,506</u>	<u>\$ 1,949</u>

10. PROVINCIAL SUBSIDY AND BENEFITS

The Corporation receives a subsidy from the Province of British Columbia which is determined annually.

Included in fixed assets as "ships under capital lease" are three ships leased from the Province at an annual cost of \$1 each. The annual cost of these charters to the Province is \$4,819,800. In addition the Corporation utilizes Crown land for terminals and highway access without rental or property taxes. The value of these benefits is indeterminable. The Corporation, as an agent of the Crown, is not liable to taxation, including taxation on improvements, except insofar as the Crown is liable.

The Corporation utilizes Ministries and Agencies of the Provincial Government for negotiation and purchase of fuel, materials, and communications. The aggregate of these transactions is \$39.3 million (1984 - \$45.3 million).

11. INTEREST EXPENSE

	1985	1984
	(expressed in thousands)	
Interest expense, amortization of promissory note discount and amortization of debt issue cost on:		
- long term debt	\$ 5,171	\$ 4,292
- short term borrowings	<u>6</u>	<u>1,906</u>
	<u>\$ 5,177</u>	<u>\$ 6,198</u>

BRITISH COLUMBIA FERRY CORPORATION

12. CASH FROM OPERATIONS

	1985	1984
	(expressed in thousands)	
Loss for the year after depreciation	\$(2,012)	\$(14,997)
Items not involving cash		
Depreciation	31,064	30,586
Amortization of promissory note discount and issue costs	860	741
Loss on retirement of fixed assets	—	248
Increase (decrease) in accrued sick leave liability	(626)	(164)
Cash generated from continuing operations	29,286	16,742
Cash generated from (used for) operating working capital		
Accounts receivable	(295)	104
Inventories	695	259
Prepayments and deposits	(266)	1,542
Accounts payable and accrued liabilities	(1,195)	(1,349)
Deferred revenue	(130)	(100)
Cash generated from operations	<u>\$ 28,355</u>	<u>\$ 17,198</u>

13. COMMITMENTS

The Corporation is contractually committed to modify the passenger areas on the M.V. "Queen of the North" and to complete terminal compound improvements at Skidegate and Departure Bay. The total estimated cost of these capital projects is \$0.9 million and as at March 31, 1985 the estimated remaining cost to complete these commitments is \$0.4 million.

Not included in the accounts is a lease commitment of \$5.4 million for the M.V. "Quinsam" which is fully recoverable through a non-cancellable sub-lease with the Ministry of Transportation and Highways for British Columbia.

14. COMPARATIVE FIGURES

Certain comparative figures for the previous year have been reclassified to conform with the March 31, 1985 financial statement presentation.

BRITISH COLUMBIA FERRY CORPORATION

Statistical Review

YEAR ENDED MARCH 31

	1985	1984	1983	1982	1981	1980
	(expressed in thousands)					
Financial						
Operating Revenue						
- Gross	\$125,530	\$120,514	\$110,689	\$112,199	\$ 99,552	\$ 82,867
Operating Expense	125,308	132,553	139,013	133,856	104,956	88,695
Operating Loss before Subsidy	8,771	21,213	37,213	31,221	14,261	13,667
Subsidy	43,000	43,000	43,000	58,891	53,106	49,447
Cash Flow from Operations	28,355	17,198	(3,005)	35,831	44,811	38,583
Depreciation and Amortization	31,064	30,586	34,724	26,087	22,148	20,271
Interest on Debt	5,177	6,198	5,073	893	779	880
Working Capital (Deficiency)	2,214	(6,799)	(37,506)	(11,495)	15,612	21,878
Additions to Property	12,456	7,142	26,804	74,376	44,919	39,369
Total Assets	303,132	305,974	335,370	357,817	334,696	312,048
Long-term Debt	36,446	35,586	20,428	31,716	13,764	15,513
Operating Traffic						
- Passengers	11,913	12,398	12,275	12,764	12,513	11,423
- Vehicles	4,460	4,483	4,463	4,713	4,626	4,161
Miles						
- Passengers	269,703	283,745	278,975	339,395	334,078	314,844
- Vehicles	96,531	97,569	97,020	118,633	116,318	106,735
Utilization						
- Passengers	28%	25%	27%	26%	28%	26%
- Vehicles	59%	56%	50%	48%	60%	57%

CORPORATE INFORMATION

HEAD OFFICE

818 Broughton Street
Victoria, B.C.
V8W 1E4

INFORMATION/ RESERVATION CENTRE

1045 Howe Street
Vancouver, B.C.
V6Z 2A9

AUDITORS

Thorne Riddell
707 Fort Street
Victoria, B.C.
V8W 3G3

CORPORATE COUNSEL

Ladner Downs
2100 Pacific Centre South
700 W. Georgia Street
Vancouver, B.C.
V7Y 1A8

BANKERS

Bank of Nova Scotia
Victoria, B.C.
Canadian Imperial Bank of Commerce
Victoria, B.C.

ROUTES

VANCOUVER ISLAND

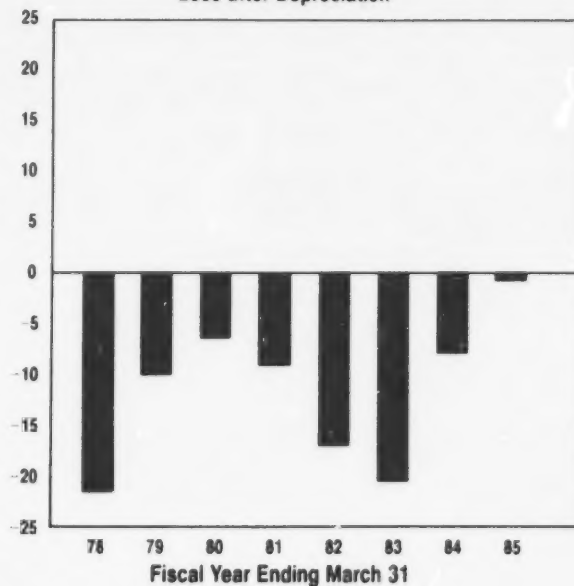
The two Mainland-Vancouver Island routes are among the busiest ferry routes in the world, carrying 7.8 million passengers and 2.8 million vehicles in 1984/85.

A concentrated effort at improving cost efficiency over the past 3 years has resulted in a tremendous reduction in the loss.

For the first time this year the Vancouver Island routes are very close to a break-even operation.



VANCOUVER ISLAND
Loss after Depreciation



ROUTES

SUNSHINE COAST

The Sunshine Coast includes four routes:

Horseshoe Bay - Langdale

Horseshoe Bay - Bowen Island

Earls Cove - Saltery Bay

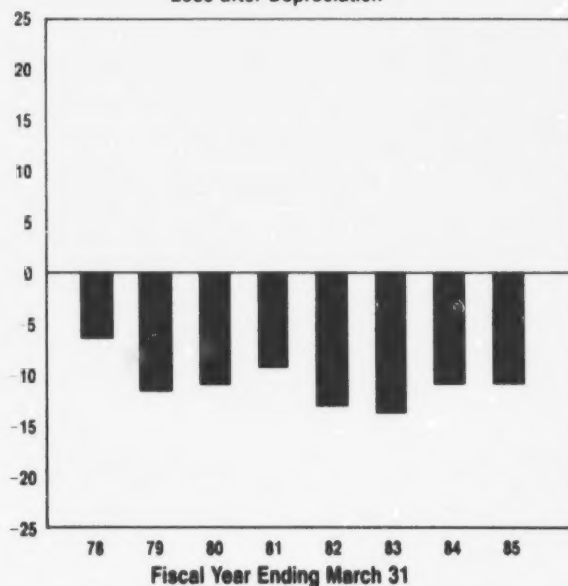
and the passenger-only service from Langdale-Gambier Island-Keates Island.

These routes carried 2.5 million passengers and 1 million vehicles in 1984/85. Although traffic has declined in each of the past three years, there has been an improvement in the financial performance.

The loss in 1984/85 was \$11 million, virtually unchanged from the previous fiscal year.



SUNSHINE COAST
Loss after Depreciation



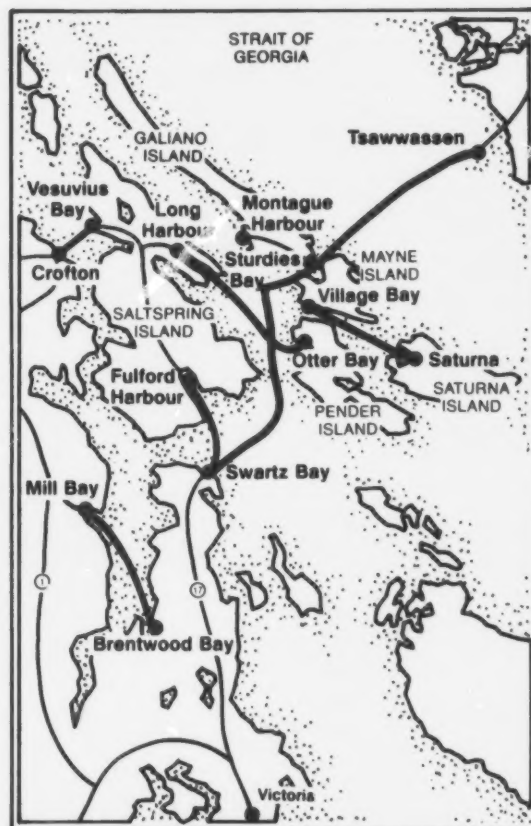
ROUTES

GULF ISLANDS

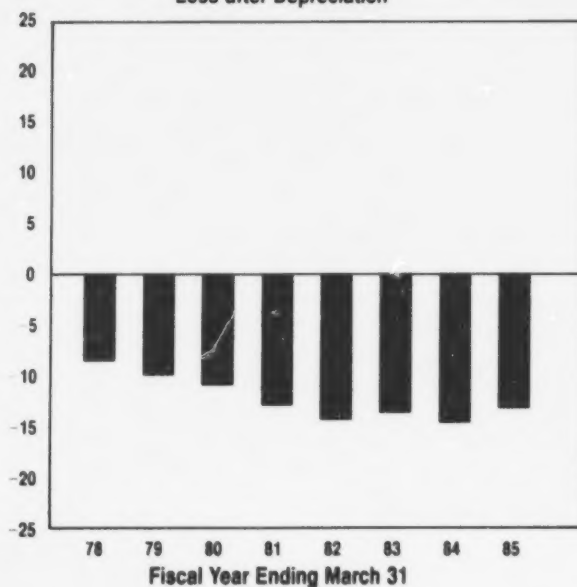
The Gulf Islands vessels service the islands of Salt Spring, Pender, Galiano, Mayne and Saturna. The region also includes the Brentwood-Mill Bay route.

In 1984/85 these routes carried 1.5 million passengers and 623,000 vehicles.

The operating loss in 1984/85 was \$13 million, which is a 9% reduction from the previous year.



GULF ISLANDS
Loss after Depreciation



ROUTES

NORTH COAST

The North Coast services include:

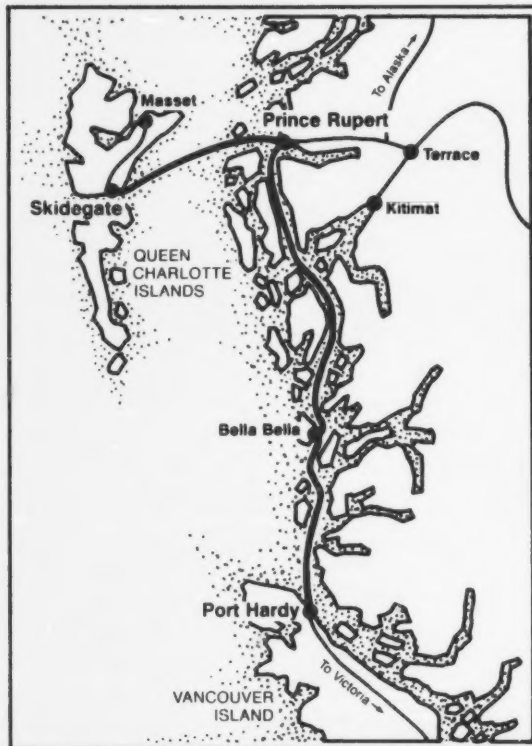
Prince Rupert - Port Hardy

Prince Rupert - Skidegate.

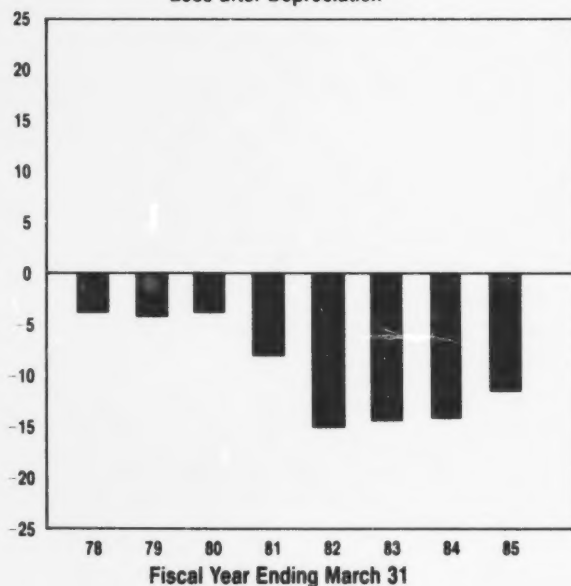
In addition the Corporation has contract services for passenger routes from Prince Rupert to Port Simpson and Kincolith.

Until March 31, 1985 there was also a contract tug-and-barge service between Prince Rupert and Masset.

For the three years previous to 1984/85 the loss on these routes averaged about \$15 million per year. With the elimination of Tsawwassen-Port Hardy service and other cost efficiencies the operating loss has been reduced by 19% to \$11 million.



NORTH COAST
Loss after Depreciation

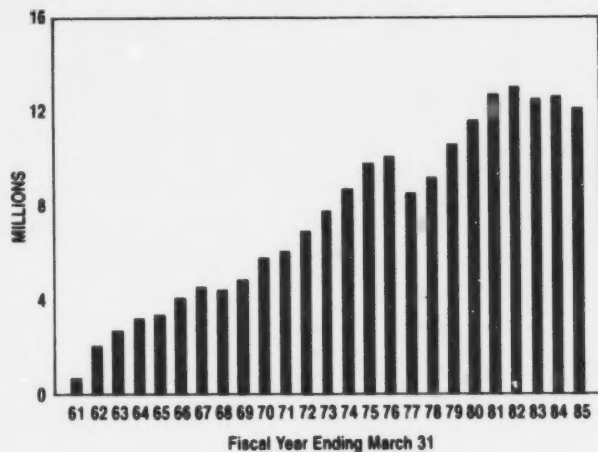


STATISTICS

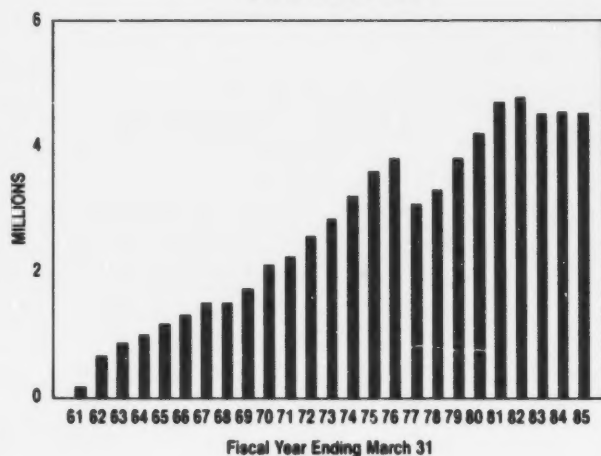
Year End	Passengers	Vehicles
March 31, 1961	692,000	221,000
March 31, 1962	2,040,000	697,000
March 31, 1963	2,665,000	895,000
March 31, 1964	3,180,000	1,034,000
March 31, 1965	3,300,000	1,185,000
March 31, 1966	4,000,000	1,333,000
March 31, 1967	4,477,000	1,516,000
March 31, 1968	4,361,000	1,530,000
March 31, 1969	4,774,000	1,733,000
March 31, 1970	5,671,000	2,102,000
March 31, 1971	5,963,511	2,228,412
March 31, 1972	6,771,837	2,552,505
March 31, 1973	7,629,385	2,824,964
March 31, 1974	8,538,297	3,169,582
March 31, 1975	9,612,501	3,558,234
March 31, 1976	9,912,738	3,760,099
March 31, 1977	8,383,502	3,044,167
March 31, 1978	9,018,976	3,258,017
March 31, 1979	10,399,203	3,758,628
March 31, 1980	11,423,405	4,161,302
March 31, 1981	12,512,898	4,625,917
March 31, 1982	12,763,664	4,712,951
March 31, 1983	12,275,466	4,462,731
March 31, 1984	12,397,905	4,482,707
March 31, 1985	11,912,943	4,460,069
Total	184,676,231	67,306,285

STATISTICS

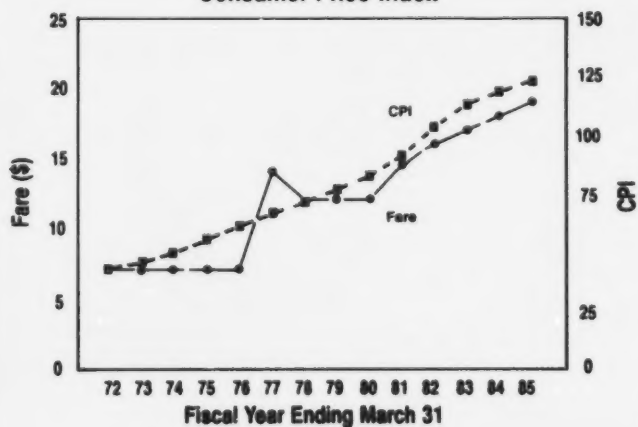
TOTAL PASSENGERS



TOTAL VEHICLES



Mainland Car & Driver Fare versus Consumer Price Index



SHIPS

	Year Built	Year Converted	Overall Length	Gross Tons	Capacity	
					Auto	Pass.
Jumbo Class						
Queen of Alberni	1976	'84	546	5863	310	1415
Queen of Cowichan	1976		457	6551	362	1466
Queen of Coquitlam	1976		457	6551	362	1466
Queen of Oak Bay	1981		457	6969	362	1466
Queen of Surrey	1981		457	6969	362	1466

V Class						
Queen of Vancouver	1962	'70,'81	426	5430	258	1360
Queen of Victoria	1962	'70,'81	426	5430	258	1360
Queen of Esquimalt	1963	'69,'82	426	5430	376	1360
Queen of Saanich	1963	'72,'82	426	5430	376	1360

Stretched Class						
Queen of Nanaimo	1964	'73	426	4939	192	987
Queen of New Westminster	1964	'74	426	4904	192	987
Queen of Burnaby	1965	'73	426	4903	192	987

Northern Ships						
Queen of Prince Rupert	1966		332	5864	80	458
Queen of the North	1969	'80	410	8807	135	750

Major Ships						
Queen of Sidney	1960		336	3128	138	989
Queen of Tsawwassen	1960		336	3127	138	989

Minor Ships						
Bowen Queen	1965	'79	279	1476	70	390
Mayne Queen	1965	'79	279	1476	70	340
Powell River Queen	1965	'79	279	1486	70	400
Howe Sound Queen	1964		241	795	70	330
Queen of the Islands	1963		236	1717	40	483
Mill Bay	1956		120	175	16	168
Saltspring Queen	1949		145	276	30	187
Vesuvius Queen	1950		150	277	32	177
Dogwood Princess II	1979		42	21	—	38





Back cover photo:

The M.V. "Queen of Saanich," being launched at V.M.D. in Victoria, February 1963. M.V. "Queen of Esquimalt" is still under construction.

